

REVITALIZING THE U.S. TEXTILE INDUSTRY & PHILIPPINE APPAREL INDUSTRY



SUMMARY OF PROPOSED 809/APPAREL PILOT PROGRAM



The 809 Component:

- The "809" refers to various proposals over the years with the purpose of eliminating or reducing duties on apparel made from U.S. fabrics. On a regional scale, a similar arrangement already exists under the CBTPA.
- Proposed products that would be covered include: cotton and man-made fiber (MMF) knit shirts, cotton and MMF trousers, cotton and MMF underwear (men's and boys' only), MMF woven men's shirts, cotton and MMF brassieres as well as cotton and MMF swimwear.

Duty Elimination/Reduction:

- Under the 809 component of the program, if the essential character of the garment is comprised of U.S.-made fabrics and yarns and is cut and wholly assembled in the Philippines, it would qualify to re-enter the United States free of duty.
- If the garment's essential character is comprised of U.S. spun or extruded yarn formed in the Philippines, they may re-enter the United States at a 50 % reduced duty rate.

Other Proposed Requirements:

- Elastomeric yarn in qualifying garments must originate in the United States.
- Fabrics must be dyed and finished in the United States, although may undergo certain processes in the Philippines, such as embroidering, stone-washing and screen-printing; U.S. fabric (or yarns) must be shipped directly to the Philippines and cannot enter the customs territory of another country.

Cut & Sew Rules for Selected Products:

- Recognizing that the success of the 809 pilot-program requires a competitive Philippine sewing industry to provide U.S. retailers with a variety of products, the program also would provide duty-free benefits for certain non-import sensitive products such as women's & girls' cotton, man-made fiber (MMF), wool and silk blends coats, other MMF and wool men's & boys' coats, women's and girls' wool slacks, cotton and MMF underwear (women's and girls' only), cotton men's and boys' shirts not knit, infants' wear, playsuits, and apparel such as dresses, skirts, suits, robes & gowns, nightwear & pajamas, and woven blouses.

Enforcement and Customs:

- The proposal includes provisions to ensure strict enforcement of the pilot program, including customs-to-customs dialogue and cooperation.
- The Philippines continues to enforce the Memorandum of Understanding Concerning Cooperation in Trade in Textile and Apparel goods it signed with the United States in August 2006. The agreement would continue to allow U.S. Customs and Border Protection to conduct "jump team" visits to verify production.
- The Philippines will establish procedures to allow the U.S. Government access to information for shipments before they reach the U.S. Customs. The information provided will include the name of the apparel importer, HTS number of the apparel to be made from the fabric, and the quantity of the apparel to be made (imported into the U.S.) from the fabric. This is similar to the Electronic Visa Information System (ELVIS), which had previously been in force in the Philippines.
- The initial proposed time frame for the pilot program is 10 years, in order to give certainty to trade and investment decisions for U.S. and Philippine businesses and customs. A joint U.S.-Philippine commission would review the program to determine whether any changes are necessary and report its findings to the U.S. Congress.

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A HISTORICAL PARTNERSHIP: THE UNITED STATES & THE PHILIPPINES



Historic Ties and Strategic Cooperation:

- The U.S. and the Philippines share deep historical and cultural ties. The Philippines, a former colony, gained its independence from the United States on July 4, 1946, and to this day maintain strong political, economic and security relationship with the United States.
- The United States maintains special preferential trading relations with all its former colonies such as the Marshall Islands, the Federated States of Micronesia and the Republic of Palau, but not the Philippines.
- U.S.-Philippines cooperation on security issues has helped combat extremism in Southeast Asia and provided a key strategic outpost for the U.S. military.
- There are over 2.3 million Filipino-Americans in the United States, with the numbers by-state ranging from slightly over 500 in Vermont to 1.1 million in California according to the Census Bureau.
- The Philippines is a cooperative member of ASEAN and APEC. Strengthening the U.S. relationship with the Philippines can act as a gateway to expanded trade and investment opportunities within the region, which is one and growing markets for U.S. goods.

A Balanced Trade Relationship:

- The Philippines maintains a fair trading relationship with the United States. In 2008, U.S. exports to the Philippines amounted to approximately US \$8.3 billion and the U.S. imports from the Philippines amounted close to US \$8.7 billion. The pilot program would continue this balanced, mutually beneficial trade relationship.
- By contrast, the U.S. trade deficit with Indonesia and Vietnam were roughly US \$10 billion for each country last year. The U.S. deficit with Thailand reached approximately US \$14.4 billion and close to US \$18 billion with Malaysia, which has been negotiating an FTA with the United States.

U.S. Trade in Goods 2008 in Billions of U.S. Dollars (U.S. Census Bureau)

Philippines		Indonesia		Vietnam		Thailand		Malaysia		Cambodia	
Exports	Import	Exports	Import	Exports	Import	Exports	Import	Exports	Import	Exports	Import
8.3	8.7	5.9	15.8	2.8	12.9	9.1	23.5	13.0	30.7	0.2	2.4

- The Philippine economy seems comparatively well-equipped to weather the global financial crisis in the short term as a result of the efforts over the past few years to control the fiscal deficit, bring down debt ratios, and adopt internationally-accepted banking sector capital adequacy standards.
- With a population of 90 million, the Philippines had an estimated GDP of US \$168.6 billion (official exchange rate) and an estimated per capita of US \$1,873 in 2008.

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MUTUAL BENEFITS FOR U.S. & PHILIPPINE INDUSTRIES & WORKERS



New Economic Opportunities:

- The proposed 809/Apparel Pilot Program is designed to facilitate higher levels of trade in textiles and apparel between the United States and the Philippines and to enhance the commercial well being of their respective industries in times of global economic hardship.
- The proposed program would for the first time give U.S. textile manufacturers and their workers a meaningful opportunity to compete for Asian business.
- Today, U.S. textile exports to the Philippines are small: about \$20 million in 2008, consisting mostly of broadwoven, industrial/specialty and non-woven fabrics. The potential for growth is approximately US \$555 million in 8-10 years.
- The proposed pilot program would also provide strong incentives for Philippine apparel manufacturers, who generally produce women's high end fashion apparel for such retailers as Ann Taylor, to use U.S. fabrics, thereby opening new opportunities for U.S. yarn and fabric manufactures.

Mutual Benefits:

- U.S. textile and Philippine apparel industries share the same challenges and risks stemming from the end of the U.S. quota system that controlled apparel imports from China until January 1, 2009.
- Like the workers in the U.S. textile sector, the workers in the Philippine apparel-manufacturing sector having lost a tremendous amount of jobs, find themselves in a similar dire situation. While garments remain one of the Philippines top exports, its employment has substantially decreased from 600,000 in 2003 to 200,000 today.
- Moreover, the U.S. apparel fabrics industry continues to be heavily dependent on sales to sewing operations in Western Hemisphere countries, where producers are excellent at making basic garments such as t-shirts and standard 5-pocket jeans. Approximately, 75% of U.S. fabric exports presently go to CAFTA/NAFTA countries.
- However, the Western-Hemisphere countries do not have the sophisticated needle capability to make embroidered t-shirts and fashion jeans with embellishments, which is almost exclusive to Asia.
- Therefore, the pilot program would provide U.S. textile manufacturers with an additional market and a new opportunity to compete in a higher fashion market.
- The pilot program would also give Philippine apparel manufacturers a chance to compete with China's quickly increasing market share of apparel exports to the United States.